

## Message Text

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PAGE 01 STATE 029151

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TO AMEMBASSY MOSCOW

INFO AMEMBASSY TEHRAN

CONFIDENTIAL STATE 029151

E.O. 11652: GDS

TAGS: EEW, EFIN, OVIP (IVANOV, YURIY A.)

SUBJECT: VISIT OF VNESHTORG BANK CHAIRMAN IVANOV TO THE

UNITED STATES

TEHRAN FOR PARSKY

1. IVANOV CALLED ON CHAIRMAN CASEY OF THE EXPORT-IMPORT BANK, A NUMBER OF LEADING NEW YORK BANKS, AND THE NEW YORK STATE BANKING COMMISSION. FOLLOWING FOR THE EMBASSY'S BACKGROUND INFORMATION ARE REPORTS OF THESE MEETINGS. ,

2. MEETING WITH CHAIRMAN CASEY.

(A) IVANOV SAID HIS GOVERNMENT WAS UNHAPPY ABOUT THE SITUATION; THE TRADE ACT CONSEQUENCES WERE EMBARRASSING. MR. CASEY HOPED THAT SOMETHING COULD BE WORKED OUT SOON, SO THAT EXIMBANK COULD RESUME ACTIVITY WITH THE USSR, BUT HE COULD NOT SAY HOW SOON THAT MIGHT BE. IN THE MEANTIME, HE HOPED TRADE COULD CONTINUE THROUGH PRIVATE CREDIT CHANNELS. MR. CASEY CONFIRMED THAT ALL THE CREDITS WHICH EXIMBANK HAD AU-  
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PAGE 02 STATE 029151

THORIZED IN THE PAST FOR THE USSR WOULD BE IMPLEMENTED.

(B) IVANOV DESCRIBED THE IMPORTANCE HE ATTACHED TO RESUMING EXIMBANK CREDITS BECAUSE A NUMBER OF NEGOTIATIONS BETWEEN SOVIET AND US FIRMS WERE IN SERIOUS STAGES. OF ABOUT \$2-3 BILLION IN POSSIBLE AGREEMENTS ALMOST \$1 BILLION WERE NEARING CONCLUSION. HE STRESSED HOW INTERNATIONAL PAPER COULD SUPPLY THE \$600-700 MILLION OF EQUIPMENT FOR THE PAPER PROJECT ENTIRELY FROM THE US, BUT BECAUSE OF DIFFICULTIES IN ARRANGING FINANCING WITHOUT EXIMBANK, INTERNATIONAL PAPER MIGHT OBTAIN ONLY \$100 MILLION FROM THE US AND EVEN THIS

AMOUNT COULD BE PLACED OVERSEAS. THE NON-US SOURCES OF SUPPLY COULD PROVIDE ALL OF THE EQUIPMENT REQUIRED FOR THE PROJECT AND CREDIT WAS AVAILABLE IN THOSE COUNTRIES WITH SUPPORT FROM THE RESPECTIVE OFFICIAL EXPORT CREDIT AGENCIES.

(C) IVANOV OBSERVED THAT US PRIVATE CREDITS ARE EXPENSIVE, ABOUT 10 PERCENT INTEREST RATE COMPARED TO THE RATES OF 6.5 TO 7 PERCENT AVAILABLE FROM THE UK, GERMANY, JAPAN, AUSTRIA AND OTHERS. PRIVATE BANKS ALSO HAVE SOME LIMITATIONS ON HOW MUCH CREDIT THEY CAN MAKE AVAILABLE. HE ASKED WHETHER THERE MIGHT BE A PROBLEM WITH JOHNSON ACT RESTRICTIONS ON US COMMERCIAL CREDIT IF THERE WERE NO FURTHER LEND-LEASE PAYMENTS BY THE USSR. OANK OFFICIALS EXPLAINED THEIR UNDERSTANDING THAT THE JOHNSON ACT HAD BEEN INTERPRETED TO ALLOW NORMAL COMMERCIAL CREDITS FOR PARTICULAR EXPORTS, BUT THAT SUCH ACTION AS FLOATING A GENERAL BOND ISSUE IN THE US WAS PROHIBITED. MR. CASEY SAID HE WOULD HAVE HIS STAFF LOOK IN TO THE MATTER.

(D) IN RESPONSE TO AN INTEREST EXPRESSED BY MR. CASEY, IVANOV LISTED IN SOME DETAIL THE FAVORABLE CREDIT TERMS WHICH THE USSR IS RECEIVING FROM THE UNITED KINGDOM, FRANCE, SWEDEN, GERMANY, ITALY, AUSTRIA AND JAPAN. HE DESCRIBED THE PRESENT SITUATION AS OFFERING THE USSR OPPORTUNITY TO OBTAIN WHAT IT NEEDED FROM SOURCES OTHER THAN THE US. IF THE US AND USSR WANT TO DO MORE TRADE TOGETHER THEN BOTH SIDES SHOULD THINK HOW TO RESTORE EXIMBANK CREDIT FOR THE USSR AS SOON AS POSSIBLE. BOTH SIDES NEED TO CONTINUE TO APPROACH EACH OTHER WITH CLEAR UNDERSTANDING.

(E) MKRTUMOV (WHO ACCOMPANIED IVANOV) EXPLAINED THAT NOW WAS THE IMPROPER TIME FOR THE EXIMBANK CREDIT TO DISAPPEAR.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 029151

THE USSR MUST DECIDE TO WHICH MARKETS IT WILL LOOK AS IT BEGINS ITS NEW FIVE-YEAR PLAN IN 1975. IT IS UNFORTUNATE THAT THERE IS AN UNCLEAR SITUATION IN THE US. IVANOV ADDED THAT THE US SHOULD BE AWARE THAT SOME SEVERE CRITICISMS HAD DEVELOPED IN THE USSR EVEN UNDER THE PREVIOUS EXIMBANK CREDITS; THE CRITICS CLAIMED THAT US CREDIT COSTS WERE TOO HIGH, BECAUSE EVEN WITH EXIMBANK INTEREST RATES AT 6 PERCENT THE BLEND WITH COMMERCIAL RATES MADE THE TOTAL

COST MORE EXPENSIVE THAN WHAT WAS AVAILABLE FROM OTHER COUNTRIES.

(F) IN CONCLUSION, IN RESPONSE TO A QUESTION FROM BANK OF-FICIALS AS TO WHAT HE HAD LEARNED FROM HIS DISCUSSIONS THIS WEEK WITH US COMMERCIAL BANKS ABOUT AVAILABILITY OF PRIVATE CREDIT IN THE US, IN ADDITION TO THE COST, IVANOV REPLIED THAT THE COMMERCIAL BANKERS BELIEVED \$1 TO \$1.5 BILLION OF CREDIT COULD BE RAISED OVER THE NEXT YEAR TO 18 MONTHS IN THE US ON REPAYMENT TERMS OF 7 TO 7 1/2 YEARS.

3. MEETING WITH NEW YORK BANKS.

WE UNDERSTAND THAT, IN HIS CALLS ON SEVERAL OF THE LEADING NY BANKS, IVANOV TESTED THEIR CAPACITY AND INTEREST TO HANDLE LARGE PRIVATE CREDITS, MENTIONING \$1 BILLION, AND CITING SIBERIAN DEVELOPMENT AS THE PURPOSE BUT NOT INDICATING SPECIFIC PROJECTS. REACTION OF THE BANKS WAS GENERALLY NEGATIVE FOR VARIOUS REASONS, INCLUDING THE STATE OF THE US CAPITAL MARKET, SOVIET PRESSURE FOR LOW RATES, (THE BANKS WERE THINKING OF ABOUT 2 PERCENT OVER THE PRIME OR EURO-DOLLAR RATE) DISINCLINATION TO TIE UP LARGE SUMS TO THE SOVIET UNION, AND CONCERN ABOUT THE APPLICABILITY OF THE JOHNSON ACT. ALSO UNDERSTAND THAT, EXCEPT IN UNUSUAL CASES, THE BANKS WERE NOT PREPARED TO CONSIDER CREDITS FOR LONGER THAN FIVE YEARS.

4. MEETING WITH NEW YORK STATE BANKING COMMISSION.

DEPARTMENT WAS INFORMED BY NEW YORK STATE BANKING COMMISSION (NYSBC) THAT, AT MEETING ON JANUARY 30 WITH ACTING SUPERINTENDENT VESNER AND DEPUTY SUPERINTENDENT KOHN, IVANOV RE-ITERATED REQUEST FOR ESTABLISHMENT OF A BRANCH OF THE SOVIET BANK FOR FOREIGN TRADE. NYSBC INDICATED BANKS FROM ALL OVER THE WORLD ARE WELCOMED IN NY, AND THEY WOULD WELCOME A SOVIET BANKING PRESENCE. THEY THEN EXPLAINED NEW YORK LAW REQUIRING RECIPROCITY OF ANY COUNTRY WHICH ESTABLISHES A

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PAGE 04 STATE 029151

BRANCH IN NY. THEY FURTHER STATED THAT THE NYSBC'S LEGAL DIVISION HAS CONCLUDED THAT THE ACTIVITIES PERMITTED US BANKS IN MOSCOW DO NOT MEET THE MINIMUM LEGALLY REQUIRED RECIPROCITY STANDARDS. VESNER EMPHASIZED THAT THIS WAS A NY STATE LAW HE WAS REQUIRED TO UPHOLD, THAT IT DID NOT INVOLVE FEDERAL LAW, AND THAT NO PROVISIONS EXISTED UNDER WHICH POLITICAL OR SPECIAL CONSIDERATIONS COULD BE GRANTED. HE THEN SUGGESTED THE SOVIETS APPLY FOR A BANKING AGENCY OFFICE OR CHARTER A WHOLLY OWNED SUBSIDIARY BANK IN NY, WHICH WOULD NOT REQUIRE SOVIET RECIPROCITY. IVANOV INDICATED SOVIETS WERE AWARE OF THESE ALTERNATIVES, BUT WOULD HAVE DIFFICULTY WITH LEGAL REQUIREMENT THAT A NY CHARTERED BANK HAVE 50 PERCENT OF ITS DIRECTORS US CITIZENS. IVANOV SAID THEY FEARED LACK OF CONTROL BECAUSE OF THIS RULE. IVANOV STATED THAT THE LIMITED FUNCTIONS OF AN AGENCY OFFICE

WOULD NOT MEET SOVIET DESIRE FOR A BANK WITH THE FULL RANGE OF BANKING SERVICES. HE CONCLUDED WITH ARGUMENTS FOR A BANK BRANCH, CLAIMING THAT RECIPROCITY SHOULD NOT BE REQUIRED FOR A COUNTRY WITH A DIFFERENT ECONOMIC SYSTEM SUCH AS THE USSR, WHERE UNDER SOVIET LAW ONLY CERTAIN LIMITED FUNCTIONS COULD BE PERMITTED OF PRIVATE BANKS. NYSBC ANSWERED BY EXPLAINING THE ACTIVITIES PERMITTED AN AGENCY OFFICE, SINCE THE SOVIETS SEEMED TO HAVE AN EXAGGERATED VIEW OF THE RESTRICTIONS ON THIS TYPE OF OFFICE. VESNER STRESSED THAT AN AGENCY CAN HOLD QUOTE CREDIT BALANCES UNQUOTE

WHICH ARE NOT TECHNICALLY NOR LEGALLY DEPOSITS, BUT WORKING BALANCES THAT ARISE FROM THE ACTIVITIES OF THE AGENCY OFFICE. SOVIETS SEEMED UNAWARE OF THIS FACT, AND SAID THEY WOULD GIVE MATTER OF TYPE OF NY PRESENCE FURTHER CONSIDERATION. FYI. WE HAVE PRELIMINARY RESERVATIONS TO POSSIBILITY SOVIETS WOULD CHARTER A WHOLLY OWNED SUBSIDIARY AND WOULD NOT REPEAT NOT WANT ANY ENCOURAGEMENT GIVEN TO THIS. END FYI. KISSINGER

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